

## **Pension Sustainability Commission**

### **MEETING MINUTES**

**Wednesday, December 12, 2018**

**10:00 AM IN ROOM 1E OF THE LOB**

#### **I. CONVENE MEETING:**

**The meeting was called to order at 10:00 AM by Chairman Rep. Steinberg.**

**The following commission members were present:**

Representative Jonathan Steinberg, Robyn Kaplan-Cho, Salvatore Luciano, Justice C. Ian McLachlan, Michael Imber, Ted Murphy, Erin Choquette, Greg Messner, Joseph Rubin, Tara Downes, Treasurer Denise Nappier

**Absent were:**

None

#### **II. OPENING REMARKS:**

Rep. Steinberg opened the meeting by commending all the members for their hard work over the past year as the group nears completion of its final report. He also commented on the harsh realities of the state's fiscal condition which many experts point out go back decades. During that time many different legislatures have struggled to pass a responsible budget without raising taxes or cutting programs- which is a very hard task. Rep. Steinberg explained that it was the call of this commission to try and make helpful suggestion on how to better the state's fiscal status by specifically addressing the state's unfunded pension liabilities. He admitted that no group alone could solve this tall task, yet it is his hope that this commission could at least be part of a potential solution.

#### **III. DISCUSSION ON COMMITTEE RECOMMENDATIONS:**

Rep. Steinberg explained that today's meeting would be spent discussing and creating a framework for the group to use when creating the final report. He stressed that the report is a work in progress as we decide next steps and a possible vote on the final product. He encouraged all members to share any questions or concerns they have now so that people do not get surprised on certain aspects of the report during a final vote.

Rep. Steinberg then offered the following assumptions and questions and followed up with a brief commentary on each topic.

### **Recommendations Discussion Framework**

- **Concept:** LOT, Treasurer's hybrid, other?
  - Pursue LOT concept within Treasurers office
- **Assumptions/Questions TBA:**
  - Enough value in assets to justify concept (\$0.5 billion, \$1 billion, more?)
  - Implications of claiming fair market value upon donation
    - By creating an LLC we can get fair market value
  - DOT property off-limits because of Federal rules
  - Monetizing cash flows of CT Lottery
  - Goal/Able to defease TRB bonds in 2025
    - Level the trajectory of future TRB contributions
  - COTs feasibility; liquidity vs. control issue
  - How to manage the ARC problem
  - Large Payment in 2025
  - Finding right balance between liquidity and lowering the ARC
  - A balanced portfolio of assets
  - CORE, Value Added, Opportunistic, Geographic, Timing/Pacing
- **Recommendations:**
  - Reconstitute commission (or something like it) in 2019 to continue work
  - Develop formula/rating system for determining potential value of specific state assets
  - Conduct further analysis of state assets to determine gross value of "eligible" assets
  - Obtain sufficient funding to engage outside consultants to prove out feasibility
  - Dedicate proceeds of CT Lottery to pension fund(s) for period of time (?)
  - Consider fiscal discipline – relating to borrowing and budgeting

After acknowledging that this is just an initial list that may only be part of what the group may end up considering he opened up the framework for questions and comments from members.

Ted Murphy commented on the recent presentation that the Treasurer gave to the group in terms of how to include the lottery as a potential asset to be considered but he questioned how the evaluation of the value of the asset is going to take place. He specifically asked how are we planning to manage the ARC problem? He also expressed concerns that if we securitize the lottery and put that money into the fund, are we going to have a huge payment problem in 2025?

Michael Imber explained that the purpose of trying to drive funding is to lower the burden on the budget as it relates to the ARC issue. He pointed out that the liquidity of the pension fund right now is such that if the legislature lowers the ARC it exacerbates the liquidity problem. The goal

is to get the pension to have enough liquidity while saving money in the budget, or in other words finding the right balance between liquidity and lowering the ARC.

Treasurer Nappier commented on the possibility of pursuing the LOT concept within the Treasurer's office, pointing out that there are many benefits to doing it this way. She also feels that we should be looking beyond the LOT- for example, by creating an LLC we can get fair market value.

Rep. Steinberg added the importance of this group providing a balanced portfolio of assets when considering these concepts. Treasurer Nappier and Laurie Martin clarified that-CORE, Value Added, Opportunistic, Geographic, Timing/Pacing are the broad categories of the balance needed for the portfolio of assets so as to "not put all our eggs in one basket."

Rep. Steinberg commented on the growing emphasis on infrastructure as an asset in the state. For example, are tolls a consideration of future asset for the commissions purposes?

Greg Messner interjected that hopefully when we get to the recommendations portion of the report there is a discussion of if we should be broadening our scope to things that would impact policy. Rep. Steinberg followed up that maybe tolls isn't the only example of infrastructure that can be utilized going forward. Treasurer Nappier added that public utilities that the state owns could be considered. Tara Downes then commented that these issues may be part of stage 2 of the commission's discussions- it is important that we work out the other issues we have been discussing first before taking on these new considerations.

Joseph Rubin explained there are two main things that this group should be considering- the lottery and all ideas on real estate. Is there any significant realized value in the real estate? If we don't focus on answering these questions above all else then we are wasting our time.

Robyn Kaplan-Cho expressed her feelings that we should extend this commission's work beyond the date that it is supposed to conclude. There is no need to establish another pension group of which there are many. Rep. Steinberg followed up that the Speaker can extend the group temporarily but we need a blue print going forward to present to the Speaker.

Salvatore Luciano stressed the importance of considering the goal of determining if we are able to defease TRB bonds in 2025 and level the trajectory of future TRB contributions – which was one of the main reasons this group was put together.

Rep. Steinberg noted that clearly we need to determine if there are enough assets to move forward with many of the commission's recommendations. He also questioned if the group wants to recommend defeasing the bonds for a variety of benefits?

Mr. Imber agreed with other members that there is a fundamental need for reform in the state pointing out that the LOT concept is not a "magic bullet." Everything we talk about has policy implications- it's impossible for us to do our job without having policy changes/reform.

Ms. Choquette explained that we do have a good idea of the assets for consideration if we use the criteria we have formed and it has been concluded that we have very few properties/assets for

this commission to consider. She concluded that if this commission does nothing else we need to vote on the criteria.

Rep. Steinberg agreed that we can't vote on a final report until we resolve the issue of accepting the criteria document and also looking at how the list of criteria was made. He asked if people are prepared to have a conversation about the criteria and discuss the outline of the final report—everyone was in favor of doing so at a January meeting.

Mr. Murphy asked if the group feels that it is within their purview to make a recommendation to establish better policy discipline. Justice McLachlan countered that unless we make the changes that the Treasurer and others have recommended then this group is a waste of time.

Mr. Messner noted that one of the commission's goals should be to level the trajectory of future TRB contributions. This could be an umbrella goal with different sub parts to it.

#### **IV. CLOSING REMARKS:**

Many members asked for the framework of the final report to be made available prior to the next meeting so that the meeting is efficient as possible as members will have time to review the document.

Rep. Steinberg closed the meeting by thanking the Treasurer for her work on this group and for the state as a new administration takes over in the new year.

The meeting was adjourned at 11:43 A.M. by Chairman Rep. Steinberg.

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**Tom Spinella**

**Administrator**

**Dawn Marzik**

**Clerk**